



LRC COMMITTEE ON MUNICIPAL POWER AGENCY RELIEF

Draft Findings and Recommendations

Heather D. Fennell

Research Division

March 7, 2012

THE DEBT:

Finding #1: The rates of the municipal electric systems operated by members of the North Carolina Eastern Municipal Electric Power Agency (NCEMPA) are higher than the rates for service offered by the investor owned utilities. The higher rates are due to the large debt incurred by NCEMPA to finance the purchase of electric generation facilities in the 1970's. Thirty-eight percent (38%) of the wholesale rate for electricity paid by members of NCEMPA is used to pay this debt.



THE DEBT:

- **Finding #2:** The total debt of NCEMPA as of January 1, 2011 is \$2,254,510,000. Each member of NCEMPA is responsible for a portion of the total debt of the power agency. The debt responsibility of each member of NCEMPA is attached as attachment #1.
- **Finding #3:** ElectriCities has proactively worked to restructure the debt to take advantage of the changing bond market.



THE DEBT:

- **Finding #4:** In the current bond market there would be limited short term advantages and long term disadvantages to refunding the debt. Due to the bond market and the nature of the indebtedness, it would not be advantageous at this time to restructure the debt.
- **Finding #5:** Due to federal tax regulations and the structure of the bonds, a large portion of the debt cannot be refunded at this time. Approximately one half of the debt cannot be called before its maturity date.



IMPACT AND ECONOMIC DEVELOPMENT:

- **Finding #6:** The high electric rates of the NCEMPA member cities have affected economic development in these cities. Individuals with businesses in these cities provided testimony to the Committee on the economic impact of the electric rates.
- **Finding #7:** The effect of the electric rates on economic development differs between the NCEMPA member cities. Cities with smaller portions of the debt are not as severely impacted as cities with a larger portion of the debt. Cities with greater growth have not been as severely impacted as cities with less growth.



IMPACT AND ECONOMIC DEVELOPMENT:

- **Finding #8:** The high electric rates in the NCEMPA member cities exacerbate the effects of the loss of industrial businesses.
- **Finding #9:** Dr. Thomas Stith of the Kenan Institute of Private Enterprise found the rate payers in NCEMPA have paid \$240 million more in electric rates as compared to other rate payers in the State.



POTENTIAL SOLUTIONS:

- **Finding #10:** ElectriCities is actively engaged in exploring the idea of selling generation assets.
- **Finding #11:** The sale of generation assets cannot be further explored at this time due to the potential regulatory changes faced by the investor owned utilities in the State. The sale of generation assets is a potential solution that should be explored further.
- **Finding #12:** ElectriCities has been proactively looking for possible solutions to the problems created by the higher rates.



FURTHER STUDY:

Finding #13: Development of solutions to the problem of high electric rates in the NCEMPA member cities would be aided by an in depth study of the economic impact of the higher rates on Eastern North Carolina and potential impact of the higher rates on the State as a whole.



FURTHER STUDY:

Finding #14: Further study of the electric rates in the NCEMPA member cities should include the exploration of the following areas:

- Need for electric generation capacity in the State now and in the future.
- Expected electricity demand in the future.
- Potential of new energy sources to meet future electricity demands.
- Value of the generation facilities owned by NCEMPA.
- Effect of rate preferences on all rate payers including small to medium size businesses, and residential users.



RECOMMENDATIONS:

Recommendation #1: A study commission should be appointed to further study the effects of the high electric rates on the NCEMPA member cities. The study should include exploration of the following areas:

- The effect of the electric rates on the economic development of Eastern North Carolina and the State as a whole. The Kenan Institute of Private Enterprise should be engaged to conduct an in depth study of the economic impact of the higher rates.
- Need for electric generation capacity in the State now and in the future.
- Expected electricity demand in the future.
- Potential of new energy sources to meet future electricity demands.
- Value of the generation facilities owned by NCEMPA.
- Effect of rate preferences on all rate payers including small to medium size businesses, and residential users.
- Other matters the Commission deems relevant.



RECOMMENDATIONS:

Recommendation #2: S.L. 2011-129 is a local bill that requires the cities of Clayton, Selma, and Smithfield to limit the use of revenue from electric rates. This revenue may only be used to (1) pay the direct and indirect costs of the electric system, (2) provide a set rate of return to the city for its capital investment, and (3) reduce rates for electric service or make payments on the debt incurred for the electric system. This restriction should be applied to all NCEMPA member cities.

